

OBSERVATIONS: *Markets rebound, mixed inflation, and Bitcoin ETF finally arrives.*

- Markets traded higher last week led by tech stocks. The NASDAQ gained +3.1%, while the S&P 500 gained +1.9% and small caps (Russell 2000 Index) were flat at +0.0%. The S&P 500 twice last week approached its all-time high that was set in early January 2022, but failed to break through to a new all-time high.¹
- Core inflation (CPI ex. food and energy) rose +0.3% month-over-month (MoM). While the measure is now +3.9% higher on a year-over-year (YoY) basis—slightly above expectations of +3.8%, this represents the lowest level for core CPI since May 2021.¹
- In contrast, December producer prices (PPI Index) were generally below expectations, as the headline PPI figure fell -0.1% month-over-month and only showed a +1.0% YoY gain. Similarly, core-PPI—which excludes food and energy—was flat on a MoM basis and is up +1.8% YoY.¹
- Unemployment claims remain low. Last week new initial claims registered 202k on a seasonally adjusted basis, which was down 1,000 from the week prior.¹
- The SEC last week approved the first group of bitcoin ETFs, over 10 years after the first Bitcoin ETF application was filed with the regulator. A total of 11 ETFs were granted the approval, now paving the way for simpler and cheaper access to the cryptocurrency.¹
- Small business optimism (NFIB Small Business Optimism Index) rose to a five-month high of 91.9, though this marks the 24th consecutive month below the fifty-year average of 98.0. Inflation, quality of labor, and taxes were cited as the top concern for small business owners.²

EXPECTATIONS: *Q4 earnings season gets underway, Congress works to avoid rolling government shutdowns.*

- Q4 earnings season kicked off last Friday with the largest banks reporting mixed results. JPMorgan results showed that 2023 was its most profitable year in its history, while Citigroup lost money in Q4 hit by a slew of one-time charges. Bank of America remained profitable in Q4, but its earnings were down -56% from a year earlier. Wells Fargo's earnings increased +9% in Q4 over Q3 but set aside additional funds for bad loans.³
- A bipartisan stopgap budget agreement was announced last week between House Republicans and Senate Democrats that should avoid rolling shutdowns which includes notable departments like Agriculture, Transportation, and Energy on Jan 19, however the budget deal only funds the government until March 8th. Congress—both the House and the Senate—needs to pass the stopgap funding bill by this Friday to avoid a government shutdown.⁴

ONE MORE THOUGHT: *Houthi attacks in Red Sea causing global trade disruptions.*⁵

A series of missile and rocket strikes on tankers and cargo ships in the Red Sea have created one of the largest disruptions for global trade since the pandemic. Yemen's Iran-backed Houthi militants have claimed responsibility and claim to be targeting vessels with links to Israel—though ships with no connection appear to have been targeted as well—as a response to the Israel-Hamas conflict in Gaza. As a result, many shipping companies are forced to reroute traffic out of the Red Sea and around the southern tip of Africa, increasing transit time by over 25%. The 120-mile Suez Canal opened in 1869 and today sees 12% of global trade passing through it, representing nearly \$1 trillion of goods annually and includes 30% of all container traffic—meaningful figures as the canal serves

¹ Bloomberg LP

² <https://strgnfibcom.blob.core.windows.net/nfibcom/SBET-Dec-2023.pdf>

³ WSJ "Stock Market Today: Bank Earnings Start Rolling In" 1/12/2024

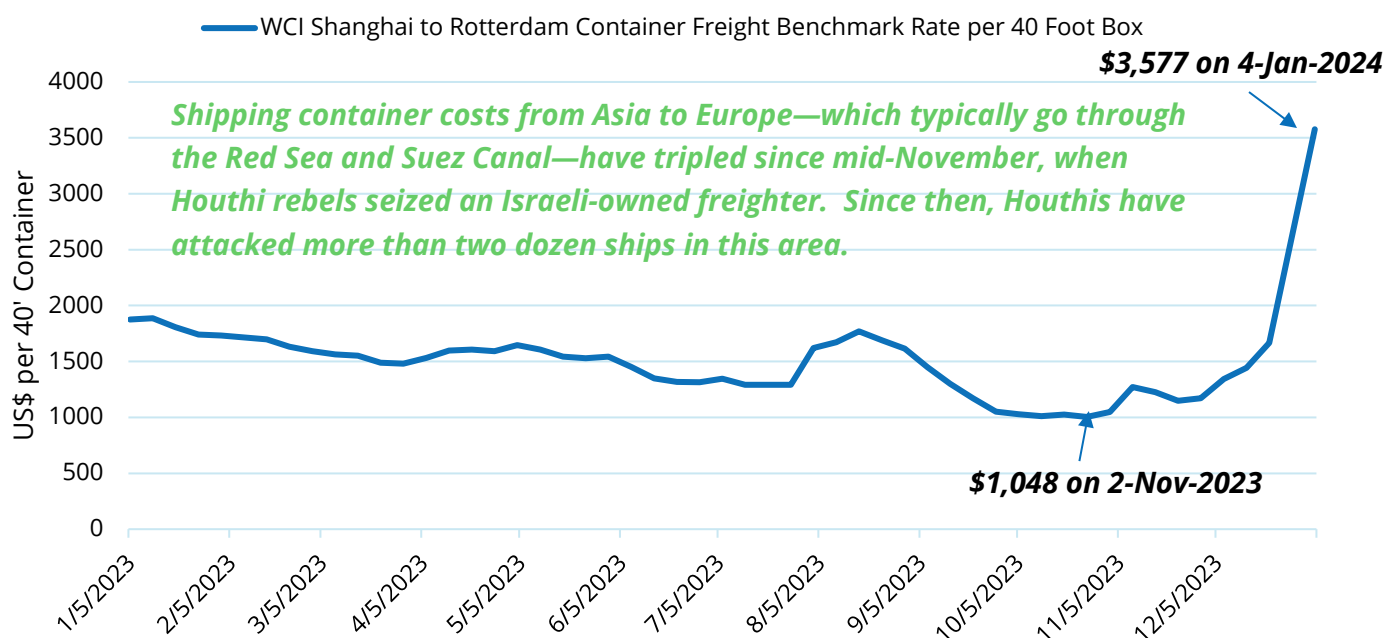
⁴ <https://www.politico.com/news/2024/01/07/congress-spending-deal-shutdown-00134200>

⁵ Bloomberg LP, <https://www.usni.org/magazines/proceedings/2021/may/suez-canal-and-global-trade-routes>

as the fastest direct maritime link between Europe with Asia. As a result of the diversions shipping rates have spiked higher, in some cases by over 100% (see Chart of the Week), at a time when European and US inflation rates (particularly on the goods side) have begun to ebb. In response, the US along with 12 other countries have positioned navy vessels in the area to deter future Houthi attacks and the US Navy already sunk three Houthi boats that attacked a merchant ship and launched a missile attack on Houthi bases late last week. However, European shipping giants Moller-Maersk, Hapag-Lloyd, and Hong Kong-based OOCL continue to re-route ships away from this area and may not re-visit this decision for weeks if not months. Any inflationary pressures that may arise from these supply chain issues may prove to be reasonably short lived, though we would note that geopolitics writ large could cause upside inflation surprises. This is important from a market point of view as so much of investors' expectations for 2024 are somewhat anchored on inflation continuing its downward descent for much of the year.

CHART OF THE WEEK

The Cost of Shipping from Asia to Europe is Spiking



Source: Clearstead, Bloomberg LP 1/9/2024

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